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Edmonton, Alberta T6G 2R6



## TELSTAR RESOURCES LTD.

### CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED

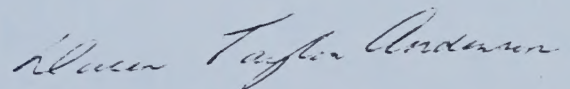
JUNE 30, 1988

AUDITORS' REPORT

To the Shareholders of  
Telstar Resources Ltd.

We have examined the consolidated balance sheet of Telstar Resources Ltd. as at June 30, 1988 and the consolidated statements of earnings, deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these statements present fairly the financial position of the company as at June 30, 1988 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.



September 11, 1988  
Calgary, Alberta

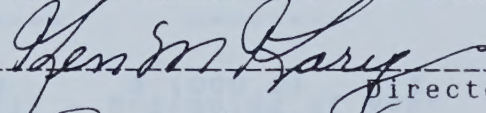
DACEN TAYLOR ANDERSON  
CHARTERED ACCOUNTANTS

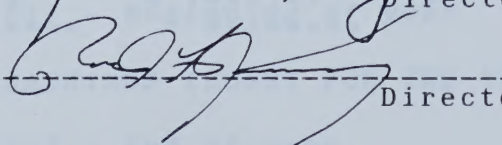


TELSTAR RESOURCES LTD.  
CONSOLIDATED BALANCE SHEET  
AS AT JUNE 30, 1988

|                                          | <u>1988</u>      | <u>1987</u>      |
|------------------------------------------|------------------|------------------|
| ASSETS                                   |                  |                  |
| CURRENT                                  |                  |                  |
| Cash                                     | \$ 61,329        | \$ 76,988        |
| Term deposits                            | 794,356          | 1,079,434        |
| Accounts receivable                      | 97,295           | 104,277          |
| Prepaid expenses                         | <u>2,500</u>     | <u>2,500</u>     |
|                                          | <u>955,480</u>   | <u>1,263,199</u> |
| PROPERTY AND EQUIPMENT - Note 2          | <u>1,948,074</u> | <u>1,751,430</u> |
|                                          | \$ 2,903,554     | \$ 3,014,629     |
|                                          | =====            | =====            |
| LIABILITIES                              |                  |                  |
| CURRENT                                  |                  |                  |
| Accounts payable and accrued liabilities | \$ 31,056        | \$ 129,360       |
| DEFERRED REVENUE                         | 66,758           | 78,266           |
| DEFERRED INCOME TAXES - Note 1           | <u>494,838</u>   | <u>494,838</u>   |
|                                          | <u>592,652</u>   | <u>702,464</u>   |
| SHAREHOLDERS' EQUITY                     |                  |                  |
| SHARE CAPITAL - Note 3                   | 4,623,121        | 4,623,121        |
| DEFICIT                                  | <u>2,312,219</u> | <u>2,310,956</u> |
|                                          | <u>2,310,902</u> | <u>2,312,165</u> |
|                                          | \$ 2,903,554     | \$ 3,014,629     |
|                                          | =====            | =====            |

APPROVED ON BEHALF OF THE BOARD:

  
 \_\_\_\_\_  
 Director

  
 \_\_\_\_\_  
 Director

## TELSTAR RESOURCES LTD.

## CONSOLIDATED STATEMENT OF EARNINGS

FOR THE YEAR ENDED JUNE 30, 1988

|                                                       | <u>1988</u>    | <u>1987</u>        |
|-------------------------------------------------------|----------------|--------------------|
| REVENUE                                               |                |                    |
| Oil, gas and sulfur (net of royalties)                | \$ 309,698     | \$ 752,134         |
| Other                                                 | <u>185,209</u> | <u>127,521</u>     |
|                                                       | <u>494,907</u> | <u>879,655</u>     |
| EXPENSES                                              |                |                    |
| General and administrative                            | 207,419        | 228,066            |
| Lease operating                                       | 151,035        | 596,926            |
| Depletion and depreciation                            | 125,827        | 84,744             |
| Interest                                              | <u>-</u>       | <u>27,546</u>      |
|                                                       | <u>484,281</u> | <u>937,282</u>     |
| INCOME (LOSS) BEFORE OTHER<br>AND EXTRAORDINARY ITEMS | <u>10,626</u>  | <u>(57,627)</u>    |
| OTHER ITEMS                                           |                |                    |
| Recovery of (provision for)<br>income taxes           | (13,441)       | 34,083             |
| Gain (loss) on sale of properties                     | -              | 1,585,771          |
| Foreign exchange gain (loss)                          | <u>1,552</u>   | <u>126,766</u>     |
|                                                       | <u>11,889</u>  | <u>1,746,620</u>   |
| EARNINGS (LOSS) BEFORE<br>EXTRAORDINARY ITEMS         | <u>(1,263)</u> | <u>1,688,993</u>   |
| EXTRAORDINARY ITEMS                                   |                |                    |
| Gain on debt settlement                               | -              | 6,300,743          |
| Write-down of properties                              | <u>-</u>       | <u>(3,000,000)</u> |
|                                                       | <u>-</u>       | <u>3,300,743</u>   |
| NET EARNINGS (LOSS)                                   | \$ (1,263)     | \$ 4,989,736       |
|                                                       | =====          | =====              |
| EARNINGS (LOSS) PER SHARE                             |                |                    |
| Before extraordinary items                            | \$ (0.000)     | \$ 0.20            |
|                                                       | =====          | =====              |
| For the year                                          | \$ (0.000)     | \$ 0.59            |
|                                                       | =====          | =====              |



TELSTAR RESOURCES LTD.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEAR ENDED JUNE 30, 1988

|                                         | <u>1988</u>    | <u>1987</u>      |
|-----------------------------------------|----------------|------------------|
| SOURCE OF WORKING CAPITAL               |                |                  |
| Operations                              |                |                  |
| Net earnings (loss)                     | \$ (1,263)     | \$ 4,989,736     |
| Items not affecting working capital     |                |                  |
| Depletion and depreciation              | 125,827        | 84,744           |
| Write-down of properties                | <u>-</u>       | <u>3,000,000</u> |
| Funds provided from operations          | <u>124,564</u> | <u>8,074,480</u> |
| Decrease in working capital             | <u>209,415</u> | <u>-</u>         |
|                                         | \$ 333,979     | \$ 8,074,480     |
|                                         | =====          | =====            |
| USE OF WORKING CAPITAL                  |                |                  |
| Net additions to oil and gas properties | \$ 322,471     | \$ (806,241)     |
| Reduction of deferred revenue liability | 11,508         | 193,838          |
| Increase in working capital             | <u>-</u>       | <u>8,686,883</u> |
|                                         | \$ 333,979     | \$ 8,074,480     |
|                                         | =====          | =====            |

TELSTAR RESOURCES LTD.

CONSOLIDATED STATEMENT OF DEFICIT

FOR THE YEAR ENDED JUNE 30, 1988

|                                  | <u>1988</u>    | <u>1987</u>      |
|----------------------------------|----------------|------------------|
| DEFICIT - Beginning of year      | \$ 2,310,956   | \$ 7,300,692     |
| NET EARNINGS (LOSS) FOR THE YEAR | <u>(1,263)</u> | <u>4,989,736</u> |
| DEFICIT - End of year            | \$ 2,312,219   | \$ 2,310,956     |
|                                  | =====          | =====            |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 1988

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of Telstar Resources Ltd., and its wholly owned subsidiary Park Lane Explorations Inc.

Oil & Gas Operations

Oil and gas properties are accounted for using the full cost method of accounting, whereby all costs of acquiring, exploring for the developing oil and gas reserves are capitalized on a country-by-country basis. No gain or loss is recognized except in significant transactions.

The cost accumulated in the cost centers, together with estimated future capital costs associated with proven reserves, are depleted by the unit of production method which is based on production and estimated proven reserves of oil and gas as determined by independent consultants. In calculating depletion, natural gas reserves and production are converted to equivalent barrels of oil based upon the relative sales value of each product. The cost of significant investments in unevaluated properties is excluded from the depletion base.

Production equipment is recorded at cost and is depreciated at the rate of twenty per cent per annum on the diminishing balance basis.

Joint Venture Accounting

Substantially all exploration and production activities are conducted jointly with others and accordingly, the accounts reflect only the Company's proportionate interest in such activities.

Other Equipment

Other assets are recorded at cost and are depreciated on the diminishing balance basis at the following annual rates:

|                        |     |
|------------------------|-----|
| Automotive             | 30% |
| Furniture and fixtures | 20% |
| Computer equipment     | 20% |



TELSTAR RESOURCES LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 1988

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- Continued

Deferred Revenue

Deferred revenue represents amounts received in respect of take or pay contracts. Such amounts have been deferred pending ultimate gas delivery or expiration of the contractual delivery period.

Income Taxes

The interperiod tax allocation basis of accounting is used with respect to all differences between the time when costs and revenues are recognized for tax purposes and when they are recorded in the Consolidated Statement of Loss.

Foreign Currency Translation

Current assets and current liabilities are translated from United States to Canadian dollars at the year end exchange rate. Other assets and liabilities are translated at historical rates. Revenues and expense items are translated using average rates of exchange prevailing throughout the year, except for depreciation and depletion which are translated at historical rates.

## TELSTAR RESOURCES LTD.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 1988

## NOTE 2 - PROPERTY AND EQUIPMENT

|                                                                                                      | <u>1988</u>                                         |                                                                                                    |                                 | <u>1987</u>                     |
|------------------------------------------------------------------------------------------------------|-----------------------------------------------------|----------------------------------------------------------------------------------------------------|---------------------------------|---------------------------------|
|                                                                                                      | <u>Cost or</u><br><u>Realizable</u><br><u>Value</u> | <u>Accumulated</u><br><u>Depletion</u><br><u>Depreciation</u><br><u>and</u><br><u>Amortization</u> | <u>Net</u><br><u>Investment</u> | <u>Net</u><br><u>Investment</u> |
| <u>CANADA</u>                                                                                        |                                                     |                                                                                                    |                                 |                                 |
| Petroleum and<br>natural gas<br>properties<br>including<br>exploration and<br>development<br>costs   | \$ 1,257,764                                        | \$ 711,707                                                                                         | \$ 546,057                      | \$ 342,531                      |
| Production equip-<br>ment                                                                            | 171,293                                             | 80,174                                                                                             | 91,119                          | 16,961                          |
| Other equipment                                                                                      | <u>161,002</u>                                      | <u>135,480</u>                                                                                     | <u>25,522</u>                   | <u>31,961</u>                   |
|                                                                                                      | <u>1,590,059</u>                                    | <u>927,361</u>                                                                                     | <u>662,698</u>                  | <u>391,453</u>                  |
| <u>UNITED STATES</u>                                                                                 |                                                     |                                                                                                    |                                 |                                 |
| Petroleum and<br>natural gas<br>properties<br>including<br>exploration<br>and develop-<br>ment costs | 2,614,996                                           | 1,460,880                                                                                          | 1,154,116                       | 1,206,257                       |
| Production<br>equipment                                                                              | <u>456,756</u>                                      | <u>325,496</u>                                                                                     | <u>131,260</u>                  | <u>153,720</u>                  |
|                                                                                                      | <u>3,071,752</u>                                    | <u>1,786,376</u>                                                                                   | <u>1,285,376</u>                | <u>1,359,977</u>                |
|                                                                                                      | \$ 4,661,811<br>=====                               | \$ 2,713,737<br>=====                                                                              | \$ 1,948,074<br>=====           | \$ 1,751,430<br>=====           |



TELSTAR RESOURCES LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 1988

NOTE 3 - SHARE CAPITAL

|                                               | <u>Number of</u><br><u>Shares</u> | <u>Consideration</u> |
|-----------------------------------------------|-----------------------------------|----------------------|
| Authorized:                                   |                                   |                      |
| 20,000,000 common shares<br>with no par value |                                   |                      |
| Issued:                                       |                                   |                      |
| Balance - June 30, 1988                       | 8,500,014                         | \$ 4,623,121         |

Escrow Shares

At June 30, 1988, 1,477,000 of the issued shares were held in escrow by the Alberta Securities Commission. These shares will be released as the Commission determines that the underlying asset value is equal to \$3.50 per share.

NOTE 4 - REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

The salaries of senior officers as defined in the Alberta Companies Act was \$74,720. Salaries of senior officers paid in the 1987 fiscal year were \$58,000. No remuneration or salaries were paid to directors who were not officers of the company.

## TELSTAR RESOURCES LTD.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 1988

## NOTE 5 - SEGMENTED INFORMATION

The company operates as an oil and gas exploration and production company. The following information relates to the company's operations in Canada and the United States.

|                                             | <u>1988</u>      | <u>1987</u>      |
|---------------------------------------------|------------------|------------------|
| REVENUE                                     |                  |                  |
| Canada                                      | \$ 213,891       | \$ 2,657,767     |
| United States                               | <u>281,016</u>   | <u>(192,341)</u> |
|                                             | <u>494,907</u>   | <u>2,465,426</u> |
| OPERATING PROFIT                            |                  |                  |
| Canada                                      | 160,603          | 2,198,601        |
| United States                               | <u>57,442</u>    | <u>(414,845)</u> |
|                                             | <u>218,045</u>   | <u>1,783,756</u> |
| INTEREST                                    | <u>-----</u>     | <u>27,546</u>    |
| GENERAL AND ADMINISTRATIVE EXPENSES         | <u>207,419</u>   | <u>228,066</u>   |
| RECOVERY OF (PROVISION FOR)<br>INCOME TAXES | <u>(13,441)</u>  | <u>34,083</u>    |
| FOREIGN EXCHANGE (LOSS)                     | <u>1,552</u>     | <u>126,766</u>   |
| EXTRAORDINARY ITEMS                         | <u>-----</u>     | <u>3,300,743</u> |
| NET EARNINGS (LOSS)                         | \$ (1,263)       | \$ 4,989,736     |
|                                             | <u>=====</u>     | <u>=====</u>     |
| IDENTIFIABLE ASSETS                         |                  |                  |
| Canada                                      | \$ 1,486,046     | \$ 1,589,566     |
| United States                               | <u>1,417,508</u> | <u>1,425,063</u> |
| TOTAL ASSETS                                | \$ 2,903,554     | \$ 3,014,629     |
|                                             | <u>=====</u>     | <u>=====</u>     |